



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2017 Biennium

Bill #	HB0609	Title:	Revise residential property tax assistance programs
Primary Sponsor:	Lieser, Ed	Status:	As Introduced

- | | | |
|-----------------------------------------------------------|------------------------------------------------------------------|----------------------------------------------------------|
| <input type="checkbox"/> Significant Local Gov Impact | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
Expenditures:				
General Fund	\$22,000	\$0	\$0	\$0
State Special Revenue	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$0	(\$208,749)	(\$277,389)	(\$346,176)
State Special Revenue	\$0	(\$13,223)	(\$17,560)	(\$21,906)
Net Impact-General Fund Balance:	<u>(\$22,000)</u>	<u>(\$208,749)</u>	<u>(\$277,389)</u>	<u>(\$346,176)</u>

Description of fiscal impact: HB 609 modifies Montana's Property Tax Assistance Program, Extended Property Tax Assistance Program, and Montana Disabled Veteran Property Tax Relief Program. The combined changes to the three programs will reduce general fund revenue by \$208,749 in FY 2017, \$277,389 in FY 2018, and \$346,176 in FY 2019. State special revenue will also decrease by \$13,223 in FY 2017, \$17,560 in FY 2018, and \$21,906 in FY 2019.

FISCAL ANALYSIS

Assumptions:

- Under current law, the State of Montana allows single income tax filers with incomes below \$21,032, and \$28,043 for joint and head of household tax filers, to have their property taxes reduced through the Property Tax Assistance Program (PTAP). Qualified taxpayers can have their property tax rates reduced for the first \$100,000 in taxable market value, including up to five acres of land, associated with their primary residence. Tax rate reductions of 80%, 50%, or 30% are allowed through the PTAP program, with rates that depend on the household's total income. To qualify for the program, taxpayers are currently required to fill out an application and apply for the PTAP program every tax year.
- HB 609 makes the following changes to the PTAP program:

- a. Qualifying income is changed from total household income to federal adjusted gross income, excluding capital and income losses of the applicant and their spouse.
 - b. Taxpayers who apply for the PTAP program are automatically enrolled in the PTAP program in subsequent years as long as they continue to meet PTAP qualifications.
 - c. The five acre land limit has been eliminated.
 - d. The \$100,000 taxable market value limit has been replaced with a \$200,000 appraised value limit.
3. The State of Montana currently places a tax rate of 95 mills on class 4 residential property, which is deposited into the state general fund. An additional 6 mills are applied to the same properties for state special revenue. Finally, the state also applies an additional 1.5 mills to residential property in the five counties with vo-tech schools, with the revenue being deposited into the state general fund.
 4. Based on taxpayers enrolled in the PTAP program in TY 2014, and current state mills, the changes to the PTAP program made by HB 609 would have reduced state general fund property tax revenue by \$60,000 for FY 2015. State special revenue would have decreased by \$3,772 for FY 2015.
 5. It is assumed that the revenue reduction associated with HB 609's PTAP adjustments will change at the same rate that the taxable value for Montana's class 4 property is projected to change.
 6. HJ 2 projects that the taxable value of Class 4 property will decrease by -2.85% from FY 2015 to FY 2016 and will increase 3.84% in FY 2017. Based on HJ 2 estimates, the Office of Budget and Program Planning (OBPP) projects that class 4 taxable value will increase by 3.88% in FY 2018 and 3.84% in FY 2019.
 7. Based on the \$60,000 estimated revenue reduction for FY 2015, and projected growth rates for class 4 properties, the changes made to the PTAP program in HB 609 will result in a reduction in general fund revenue of \$60,531 in FY 2017, \$62,879 in FY 2018 and \$65,293 in FY 2019. State special revenue fund revenue is also projected to decrease by \$3,806 in FY 2017, \$3,953 in FY 2018 and \$4,105 in FY 2019 as a result of HB 609's changes to the PTAP program.
 8. The changes made by HB 609 are not applied until TY 2016. As a result, it is assumed that HB 609 will have no revenue impact until FY 2017.
 9. HB 609 also modifies the state's property tax assistance program for Montana disabled veterans (MDV). Under current law, disabled veterans, or their surviving spouse, who reside in Montana are able to have their property taxes reduced by either 100%, 80%, 70%, or 50%, depending on their income. To qualify for the program, individuals must have a federally adjusted gross income of less than \$39,000 if the taxpayer is single, \$45,000 if they are married, or \$34,000 if they are a surviving spouse of a veteran. The MDV program currently limits the property tax reduction to a maximum of five acres.
 10. HB 609 changes the income qualification for the MDV program from federal adjusted gross income to federal adjusted gross income, excluding capital and income losses for the applicant and their spouse. HB 609 also eliminates the five acre property cap.
 11. Based on taxpayers enrolled in the MDV program in TY 2014, and current state property tax mills, the changes made to the MDV program by HB 609 would have reduced state general fund revenue by \$16,852 in FY 2015 and state special revenue by \$1,120.
 12. It is assumed that the revenue reduction associated with HB 609's MDV adjustments will change at the same rate that the taxable value for Montana's class 4 property is projected to change.
 13. Using HJ 2 and OBPP projected growth rates for class 4 property taxable value, the changes made by HB 609 to the MDV program would reduce general fund revenue by \$17,001 in FY 2017, \$17,661 in FY 2018, and \$18,339 in FY 2019. State special revenue is also projected to decrease by \$1,130 in FY 2017, \$1,174 in FY 2018, and \$1,219 in FY 2019.

Fiscal Year	Class 4 Taxable Value	Revenue Change					
		Percent Change In Taxable Value	PTAP General Fund	PTAP State Special Revenue	MDV General Fund	MDV State Special Revenue	Total
2015	\$1,521,371,000		(\$60,000)	(\$3,772)	(\$16,852)	(\$1,120)	(\$81,744)
2016	\$1,478,052,000	-2.85%	(\$58,292)	(\$3,665)	(\$16,372)	(\$1,088)	(\$79,417)
2017	\$1,534,847,000	3.84%	(\$60,531)	(\$3,806)	(\$17,001)	(\$1,130)	(\$82,468)
2018	\$1,594,377,000	3.88%	(\$62,879)	(\$3,953)	(\$17,661)	(\$1,174)	(\$85,667)
2019	\$1,655,578,000	3.84%	(\$65,293)	(\$4,105)	(\$18,339)	(\$1,219)	(\$88,955)

14. Finally, HB 609 also makes changes to Montana's Extended Property Tax Assistance Program (EPTAP). To qualify for the EPTAP under current law, a property owner must have had an increase in value of more than 25% as a result of the 2008 reappraisal and have an increase in tax liability of more than \$250 in 2008. However, because of the statutory language in 15-6-193, MCA, taxpayers would have a lower taxable value if they chose not to participate in EPTAP, assuming they qualified.
15. HB 609 changes the provisions of the EPTAP program to reference the 2014 reappraisal cycle, and modifies the calculations for calculating eligible properties' taxable value.
16. In order for a property to be eligible for the program, a property's value must have increased by 25% or more, and the difference in tax liability as a result of the change in taxable value must be greater than \$250 using tax year 2014 mill levies.
17. In addition to the prior requirements, the total household income is also considered when determining if a property qualifies.
18. Under HB 609, if a household earns less than \$25,000 per year and qualifies for the program, then the most the taxable value for their property can increase by is 4% per year, or 24% over the six year appraisal cycle.
19. If a household earns more than \$25,000 per year but less than \$50,000 per year and qualifies for the program, then the most the taxable value for their property can increase by is 5% per year, or 30% over the six year appraisal cycle.
20. If a household earns more than \$50,000 per year but less than \$75,000 per year and qualifies for the program, then the most the taxable value for their property can increase by is 6% per year, or 36% over the six year appraisal cycle.
21. Using the reappraisal data, it is estimated that approximately 39,100 residential properties would have grown by more than 24% as a result of reappraisal and had an increase in tax liability of more than \$250.
22. Using the personal income tax data from TY 2013, 27,493 of the 39,100 (70.31%) properties were matched with corresponding income data.
23. Of these 27,493 properties, it is estimated that 9,889 would qualify given the income restrictions. The table below shows the estimated changes in taxable value for the sample for each of the three income groups as a result of HB 609.

Fiscal Year	Change in Taxable Value By Income Group			Change in State Property Tax Revenue	
	\$0 to \$25,000	\$25,000 to \$50,000	\$50,000 to \$75,000	General Fund	State Special Revenue
2016	(\$282,943)	(\$214,304)	(\$192,449)	(\$65,521)	(\$4,138)
2017	(\$565,886)	(\$430,440)	(\$384,898)	(\$131,216)	(\$8,287)
2018	(\$851,585)	(\$644,745)	(\$575,764)	(\$196,849)	(\$12,433)
2019	(\$1,134,528)	(\$860,880)	(\$768,213)	(\$262,544)	(\$16,582)

24. In order to calculate the estimated decrease in state tax revenue, the decrease in taxable value is multiplied by the 101 mills and the result is divided by 70.31% to account for the properties where the income could not be determined.
25. The provisions to EPTAP in HB 609 are estimated to decrease state revenue by \$139,504 in FY 2017, \$209,281 in FY 2018, and \$279,126 in FY 2019.
26. It is estimated 94.06% (95/101) of this loss will be a loss to the general fund, and the remaining portion is a loss to the Montana University System.
27. All combined, the changes to the PTAP, MDV, and EPTAP programs will reduce general fund revenue by \$208,749 in FY 2017, \$277,389 in FY 2018, and \$346,176 in FY 2019. State special revenue is also projected to decrease by \$13,223 in FY 2016, \$17,560 in FY 2017, and \$21,906 in FY 2019.
28. The Department of Revenue expects to incur \$22,000 in costs to update its computer systems in FY 2016 as a result of HB 609.

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
<u>Fiscal Impact:</u>				
<u>Expenditures:</u>				
Operating Expenses	\$22,000	\$0	\$0	\$0
TOTAL Expenditures	\$22,000	\$0	\$0	\$0
<u>Funding of Expenditures:</u>				
General Fund (01)	\$22,000	\$0	\$0	\$0
State Special Revenue (02)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	\$22,000	\$0	\$0	\$0
<u>Revenues:</u>				
General Fund (01)	\$0	(\$208,749)	(\$277,389)	(\$346,176)
State Special Revenue (02)	\$0	(\$13,223)	(\$17,560)	(\$21,906)
TOTAL Revenues	\$0	(\$221,972)	(\$294,949)	(\$368,082)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$22,000)	(\$208,749)	(\$277,389)	(\$346,176)
State Special Revenue (02)	\$0	(\$13,223)	(\$17,560)	(\$21,906)

Technical Notes:

1. SB 157 eliminates the EPTAP program and modifies the PTAP and MDV programs, coordination language may be needed in HB 609.

*Sponsor's Initials*_____
*Date*_____
*Budget Director's Initials*_____
Date